IMPERIAL OIL LIMITED

Annual Report

1958

IMPERIAL OIL'S TEN DIRECTORS ARE, CLOCKWISE FROM THE LEFT: A. C. HARROP, L. D. FRASER, J. W. HAMILTON, J. A. COGAN, VICE-PRESIDENT, W. O. TWAITS, EXECUTIVE VICE-PRESIDENT, J. R. WHITE, PRESIDENT, T. F. MOORE, VICE-PRESIDENT, C. E. CARSON, G. L. MACPHERSON, V. TAYLOR. AT LOWER RIGHT: C. D. CRICHTON, GENERAL SECRETARY.

Imperial Oil Limited

HEAD OFFICE: SARNIA, ONTARIO

EXECUTIVE OFFICES: TORONTO, ONTARIO

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directors

C. E. CARSON J. A. COGAN L. D. FRASER J. W. HAMILTON
A. C. HARROP G. L. MACPHERSON T. F. MOORE
V. TAYLOR W. O. TWAITS J. R. WHITE

officers

J. R. WHITE, *President* W. O. TWAITS, *Executive Vice-President*

Vice-Presidents: J. A. COGAN T. F. MOORE

COLIN D. CRICHTON, *General Secretary* J. H. SPENCE, *Comptroller*

D. W. McGIBBON, *Treasurer*

J. F. BARRETT, Q.C., *General Counsel*

transfer offices

IMPERIAL OIL LIMITED: Toronto, Ontario

MONTREAL TRUST COMPANY: Halifax, Nova Scotia; Montreal, Quebec; Winnipeg, Manitoba; Regina, Saskatchewan; Calgary, Alberta; Vancouver, British Columbia

BANKERS TRUST COMPANY: New York, N.Y.

exploration and production

WESTERN REGIONAL OFFICE: Calgary, Alberta

DIVISION OFFICES: Edmonton, Alberta; Regina, Saskatchewan; London, Ontario

manufacturing

REFINERIES: Ioco, British Columbia; Calgary, Alberta; Edmonton, Alberta; Regina, Saskatchewan; Winnipeg, Manitoba; Sarnia, Ontario; Montreal East, Quebec; Halifax, Nova Scotia; Norman Wells, Northwest Territories

marketing

DIVISIONAL MARKETING HEAD OFFICES: Vancouver, British Columbia; Edmonton, Alberta; Regina, Saskatchewan; Winnipeg, Manitoba; Leaside, Ontario; Montreal, Quebec; Halifax, Nova Scotia; St. John's, Newfoundland

MARKETING BRANCHES THROUGHOUT CANADA

1958 features compared

	1958	1957	1956
		MILLIONS	
Gross Income from all sources	$839	$885	$837
Net Earnings after all charges and taxes	$ 50.6	$ 72.1	$ 69.1
as percentage of gross income	% 6.0	% 8.2	% 8.3
Dividends paid shareholders (Per share: 1958, $1.20; 1957, $1.20; 1956, $1.20)	$ 38	$ 38	$ 36
Taxes charged against income (Not including road taxes and other directly levied taxes of $112 millions of which Provincial road taxes on gasoline ranged from 10 to 17 cents per gallon in 1958.)	$ 64	$ 84	$ 82
Shareholders' Investment	$613	$600	$565
Sales of Products and Processed Crude . . Bbls. (Bbls. per day: 1958, 276,000; 1957, 276,000; 1956, 275,000)	101	101	101
Crude Oil Processed at Refineries . . . . . Bbls. (Bbls. per day: 1958, 269,000; 1957, 267,000; 1956, 275,000)	98	97	101
Crude Oil Produced — Gross . . . . Bbls. (Bbls. per day: 1958, 86,000; 1957, 110,000; 1956, 119,000)	31	40	44
— Net to Imperial . . . . Bbls.	28	35	38
Capitalized Expenditures for replacement and expansion of plants and equipment and Exploration Expenditures	$ 98	$144	$134
Provisions for Depreciation of plants and equipment	$ 45	$ 40	$ 37

annual report to the shareholders

For the fiscal year ended December 31, 1958

Last year the earnings of Canadian industry were considerably lower than in 1957. This was a normal response to economic conditions, for although the business decline had ended the total physical output of goods and services was only about equal to 1957, and industrial production was about 2 per cent less. However, economic trends had turned upward again, and by year-end recovery appeared to be well under way.

Since the discovery of Leduc, Canada's oil industry has played an increasingly important role in supplying the country's energy requirements. Last year it provided more than one-half of the total needs. As its share of the energy market has grown, the industry has naturally become more sensitive to changes in the economic climate. This, together with pressures of world-wide surplus supplies, had an important bearing on its performance during the past year.

Canada's total consumption of crude and products was only slightly more than in 1957. In the early part of the year mild weather reduced the consumption of furnace fuel. Sales of other products, particularly motor gasoline, increased. By the fourth quarter petroleum demand increased substantially, reflecting better business conditions and unusually cold weather.

As was expected, newly available supplies of natural gas competed vigorously in the home heating and industrial fuel markets in central Canada. From now on oil and gas will share in the expanding energy demands of this area.

With only a small increase in consumption, and substantially increased refining capacity, competition for markets was more intense than ever. At the retail level this was expressed by price wars; in the wholesale field by lower realizations and narrower margins of profit.

A feature of the oil industry's performance in 1958 was the improvement in operating efficiencies. This spoke well for the vitality and resourcefulness of the industry, but it could not compensate entirely for narrower profit margins and absence of any considerable market growth.

The pattern of supply was little changed from a year earlier, with domestic refineries providing 87 per cent of requirements and using about 56 per cent Canadian crude. There were significant additions to refining capacity in the Ontario and British Columbia markets, where nearly all of the rapidly growing demand is supplied by Canadian crude oil.

Nevertheless, the industry's crude production was about 9 per cent lower than in 1957. For although Canadian refineries consumed more Canadian crude, this was more than offset by a reduction in exports which were 45 per cent below the level of the previous year. This reflected the loss of markets which were served temporarily during the Suez crisis, and the lessened demand for Canadian crude in United States markets. A very competitive crude oil supply situation was intensified by low tanker rates.

Although the need for more crude oil outlets was a continuing problem for the Canadian oil industry, potential production continued to increase and at year-end was nearly one million barrels per day, approximately twice as much as current demand. There were, however, some encouraging developments in two important areas. In the big Ontario market, refinery expansion is continuing and the use of Canadian crude is growing correspondingly. In the export markets, after the sharp declines of last year, some growth has been experienced. It is to be hoped that Canadian crude will shortly recover its appropriate share of the United States market.

The Company's earnings for 1958 amounted to $50,620,414. This was 30 per cent below the record level of $72,080,930 in 1957. Reductions of this magnitude, or more, seem to be the experience of most members of the industry in Canada as well as in the United States.

Total crude production from Company-owned and controlled wells declined by about 22 per cent to 86,000 barrels a day. Imperial was more severely affected than the industry as a whole because of its large holdings in fields with high producibility.

An aggressive exploration program was continued and substantial additional acreage was acquired in the Northwest Territories and in the Alberta foothills. Imperial made or participated in six gas discoveries in western Canada. The most important of these was a major success at Wildcat Hills in the foothills of Alberta.

The Company's nine refineries processed 269,000 barrels daily of crude oil. This was about the same as in 1957 and the percentage of Canadian crude was somewhat larger. A modernization and expansion program, now almost completed, will raise the Company's rated refining capacity for Canadian crude oil and add to its octane improvement facilities.

Total product sales of 276,000 barrels daily approximated last year's volume. Imperial's branded products continued to enjoy wide preference and despite increased competition the Company's share of the gasoline market was maintained.

The Company's capital program was substantial, but lower than in the previous year, amounting to $98,000,000 compared with $144,000,000 in 1957. The smaller outlay was not entirely related to the slower tempo of economic growth. It also indicated completion of some major projects in the Company's continuing program of expansion and development.

In more difficult circumstances than have been experienced for some years, the oil industry has again demonstrated its basic strength and the soundness of its operating methods. Its rapid rise to a position where it supplies more than one-half of Canada's total energy requirements is a measure of the part it has played in Canada's post-war development, and of the value of its products and services, and the dependability of its supply. These results have been achieved by the co-ordinated efforts of many talents and techniques which in turn have been supported by large sums of capital that have been provided, directly and indirectly, by literally millions of people. There has never been recourse to government funds. On the contrary the developments have largely increased the public revenues and have added greatly to the national wealth. Imperial Oil is proud of the part it has played in the industry's achievements and hopes that the conditions which have made them possible will continue to prevail.

* * * *

There are now approximately 45,000 Imperial Oil shareholders, and the management wishes to thank them for their continued interest and support. The management also records its appreciation of the loyal and effective work of the Company's employees.

Toronto, Ontario.
March 20, 1959.

J. R. White
President

Reviews of some of the Company's principal departmental activities follow. The financial review and the usual financial statements, together with the auditors' certificate, are presented on pages 19 to 27. A ten-year summary of operating and financial results appears on pages 28, 29.

production and exploration

The Company's gross crude oil production was 31,228,183 barrels, an average of 85,557 barrels per day. This was 22 per cent less than 1957. Net production after payment of royalties averaged 75,489 barrels per day.

The first decline in the demand for Canadian crude oil occurred during the year. Alberta, where production is prorated to demand, absorbed the greater part of the decrease. As a result, all oil wells in the province operated at or near their assigned minimum monthly producing allowances for approximately five months of the year. Fields having high producing potentials, such as Leduc, Golden Spike and Redwater in which the Company has large interests, were most severely affected and produced at very low rates.

The effect on the Company's crude oil production from these fields compared with 1957 is shown by the chart on the facing page.

Sales of natural gas totalled approximately 28 billion cubic feet, of which 8.6 billion cubic feet were produced from the Company's properties in southwestern Ontario. This volume of gas was equivalent in heating value to 13,000 barrels of fuel oil per day. In addition, butane, propane and natural gasoline recovered and sold by the Company's gas conservation plants at Devon and Redwater amounted to 2,500 barrels per day.

The development drilling program was maintained at a level consistent with the existing crude oil demand. Seventy-three development wells were drilled in western Canada and nine were completed in eastern Canada. Of these, seventy-one were oil wells, one was a gas well and ten were dry holes. The program was confined mainly to the Joffre, Innisfail, Big Lake areas of Alberta and Steelman in Saskatchewan. At year-end, the Company had 2,280 oil wells and 146 gas

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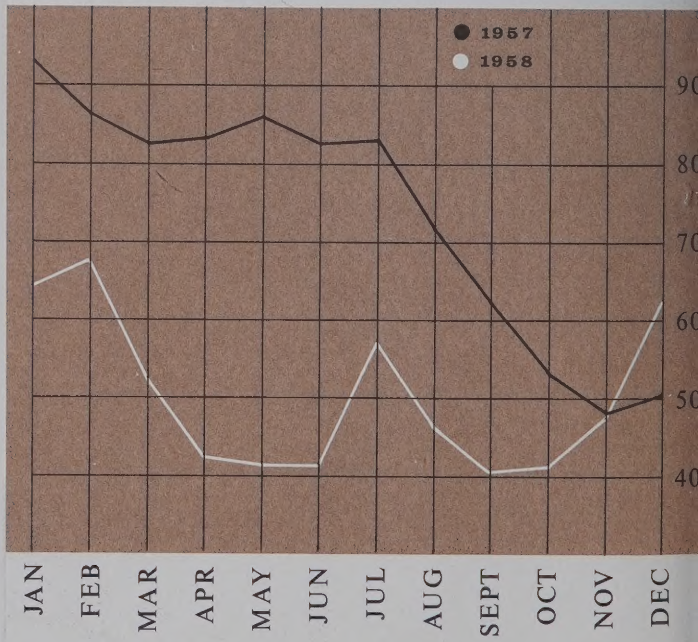
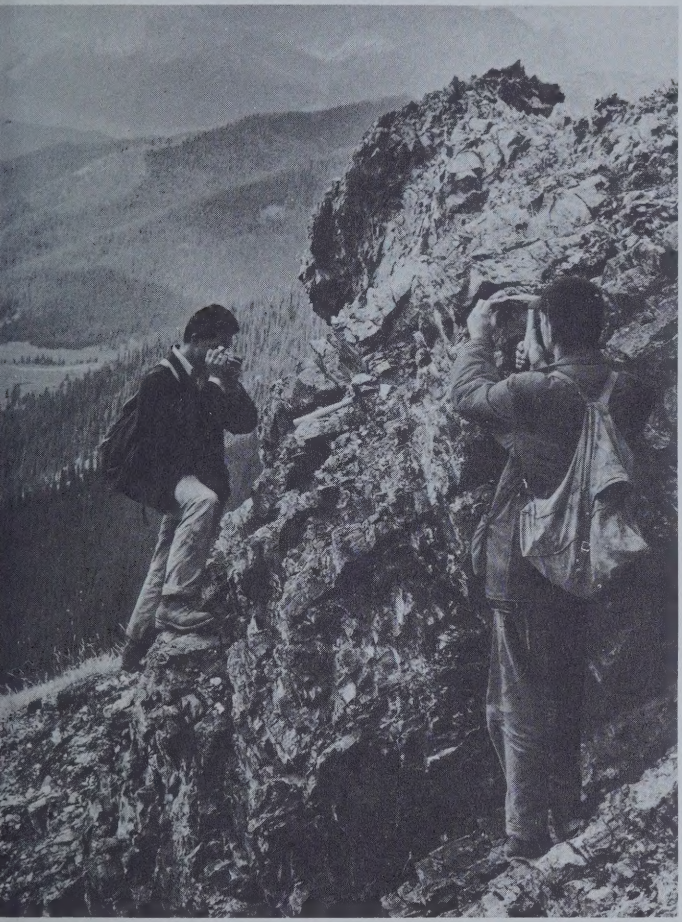
average daily production Leduc, Golden Spike, Redwater 1958 vs. 1957



GEOLOGICAL SURVEYS WERE CARRIED OUT FROM THE ROCKIES TO THE ATLANTIC COAST.



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wells capable of production in western Canada and southwestern Ontario.

The waterflood project begun in 1957 in the Becher pool in southwestern Ontario was successful and plans were made to expand it. The pilot waterflood program in the Steelman pool in Saskatchewan, where the Company is participating with other operators, was also very encouraging and studies for its expansion were under way at year-end. The gas conservation plant at Smiley in west-central Saskatchewan was completed and put into operation. In addition, a proposal to join with other operators in the construction of a gas conservation system to serve the Alida-Nottingham area in southeastern Saskatchewan was under development.

The search for new and improved operating methods in the location and development of oil and gas reserves was continued at the Company's technical services and research facilities in Calgary. Among projects which produced encouraging results were the development and improvement of a vehicle for use in muskeg and northern terrain, as well as the technique of drilling small diameter wells.

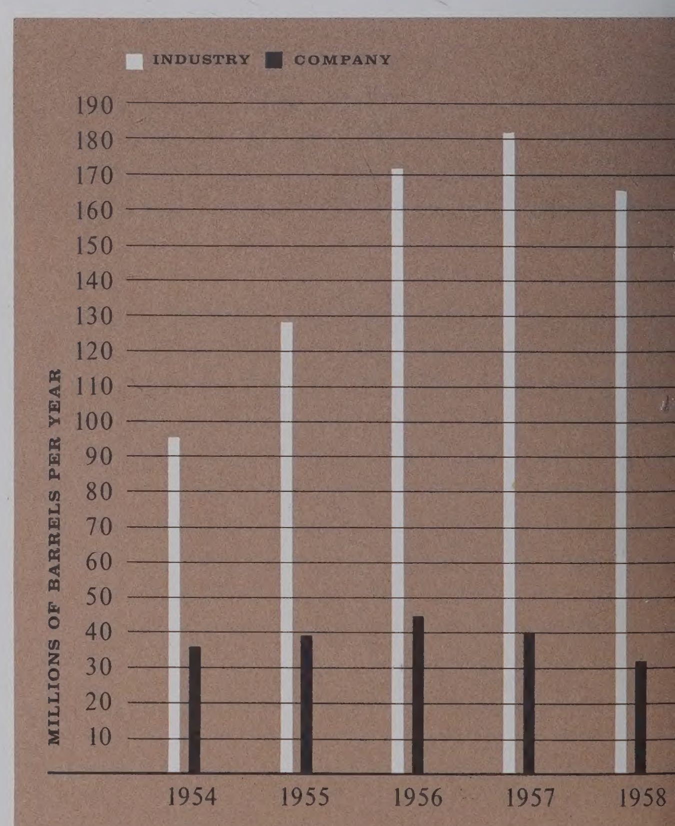
The Company continued to explore actively for new oil and gas reserves in most areas of Canada including British Columbia, Alberta, Saskatchewan, southwestern Ontario, New Brunswick and Prince Edward Island. Geological and geophysical surveys were also carried out in Quebec, Nova Scotia and the Northwest Territories.

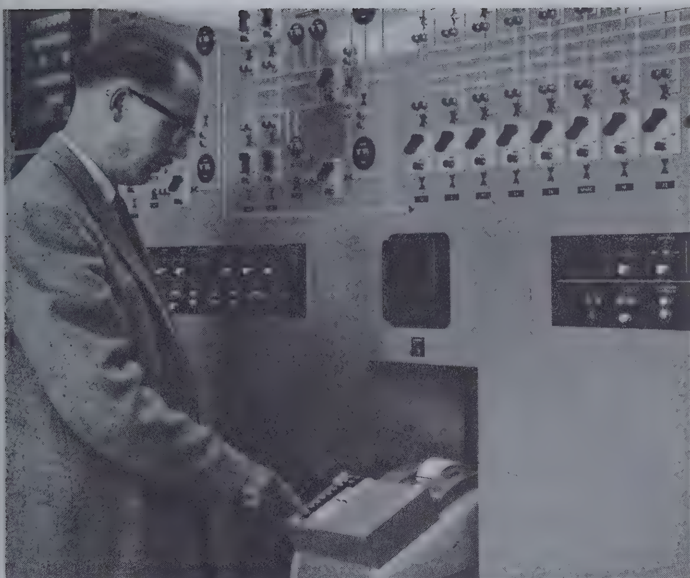
The Company's gross land holdings at year-end were up 4.8 million acres over the previous year. This reflected the general industry trend, and, as a result, the Company's gross land holdings in reservations, permits, options and leases were approximately 26.1 million acres in western Canada and 3.5 million acres in eastern Canada, for a total of 29.6 million acres.

In line with the general trend of the industry, the Company completed fifty-two exploratory wells in western Canada compared with ninety-one in 1957. The decrease was due mainly to reduced activity in southeastern Saskatchewan. The Company made, or participated in, six gas discoveries, the most important of which was at Wildcat Hills, 40 miles northwest of Calgary. Two of the other discoveries were made in Alberta, two in northeastern British Columbia and one in Saskatchewan. Thirty shallow exploratory wells were drilled in southwestern Ontario and three deep wells were drilled in Prince Edward Island.

AN IMPERIAL OIL WILDCAT DRILLING IN MUSKEG COUNTRY IN NORTHERN ALBERTA.

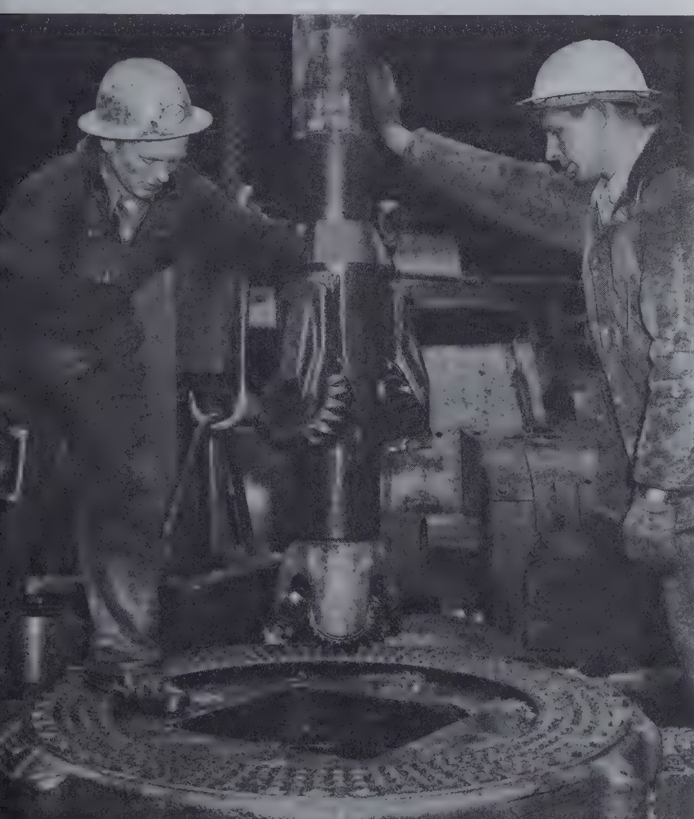
crude oil production





OIL GATHERING IN THE REDWATER AND EXCELSIOR FIELDS IS REGULATED BY REMOTE CONTROL.

WILDCAT WELLS WERE DRILLED IN SIX PROVINCES. THIS DEEP TEST WELL IN PRINCE EDWARD ISLAND WAS DRY.



transportation

PIPE LINES

Average daily shipments by Company-owned pipe lines compared as follows with movements in the previous year:

	1958	1957	Per cent
	Barrels per day		Change
Imperial Pipe Line (gathering system)	82,300	120,000	–31
Winnipeg Pipe Line (crude trunk line)	26,500	24,700	+7
Sarnia Products Pipe Line (products trunk line)	40,000	42,300	–5

There were further installations of metering equipment which operates automatically to transfer crude oil to and from pipe lines. Equipment was installed for the remote control operation of the London pump station on the Sarnia Products Pipe Line.

The pipe line systems in which the Company has investment interests reported average daily volumes as follows:

	1958	1957	Per cent
	Barrels per day		Change
Portland/Montreal pipe line system (crude trunk line)	215,200	223,100	–4
Interprovincial/Lakehead pipe line system (crude trunk line)	300,000	273,700	+10
Trans Mountain Oil Pipe Line (crude trunk line)	81,600	154,900	–48
Peace River Oil Pipe Line (crude trunk line and gathering system)	10,700	8,800	+22
Producers/Westspur pipe line system (crude trunk line and gathering system)	77,000	54,300	+42

Eighty-two miles of 24-inch loop were installed on the Interprovincial/Lakehead system thus completing a second line from Edmonton to Superior, Wisconsin. The capacity of several Canadian pumping stations was increased and two new stations were added to the system in Michigan.

The sharp drop in exports to the United States reduced throughput in the Trans Mountain pipe line to about half of the peak during the Suez crisis. A new British Columbia refinery was connected to the line during the year.

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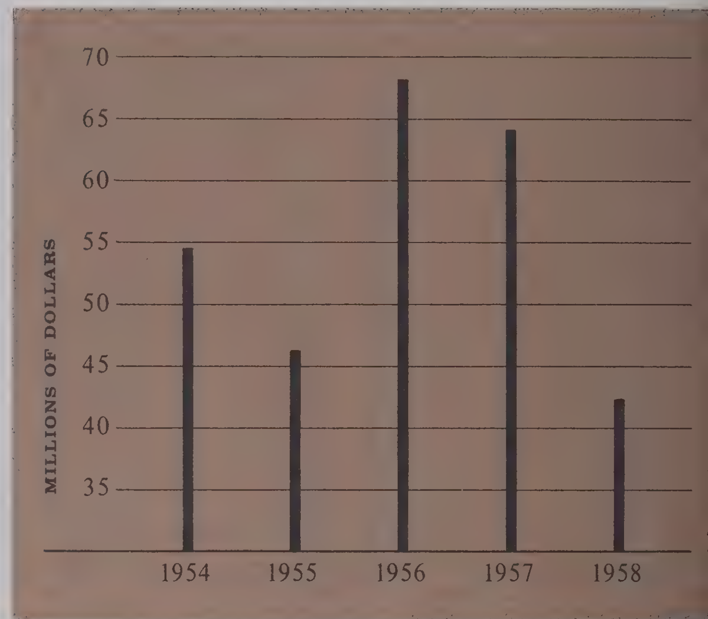

A SEISMIC "SHOT" IN SASKATCHEWAN SENDS SHOCK WAVES DEEP INTO THE EARTH TO REVEAL THE STRUCTURE OF UNDERGROUND FORMATIONS.

expenditures for exploration and development

A CABLE TOOL RIG FOR SHALLOW DRILLING. THE COMPANY'S FIRST NEW BRUNSWICK WELL WAS DRILLED IN THIS WAY.

transportation

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The Producers/Westspur pipe line is a gathering and trunk line system which serves the southeastern Saskatchewan producing area. Two more pump stations were installed to increase its capacity from 89,000 to 120,000 barrels daily.

MARINE

The Company's owned fleet at year-end consisted of fourteen vessels totalling 78,227 DWT, thirteen of which are small tankers used in lake and coastal waters. They supplied three-quarters of the Company's shipping requirements in these areas.

Three-fifths of the Company's ocean shipping requirements were met by ships owned by or on period charter to the Company. Because of the economies afforded by larger vessels, the Company's two remaining T-2 tankers were sold, leaving one owned ship of 35,550 DWT engaged in ocean crude service.

RAIL TRANSPORT

Nearly 32,000,000 barrels of crude and products were shipped by the Company in tank cars. This required 157,600 carload shipments with railroad freight charges in excess of $32,000,000 which included increases in freight rates during the year.

manufacturing

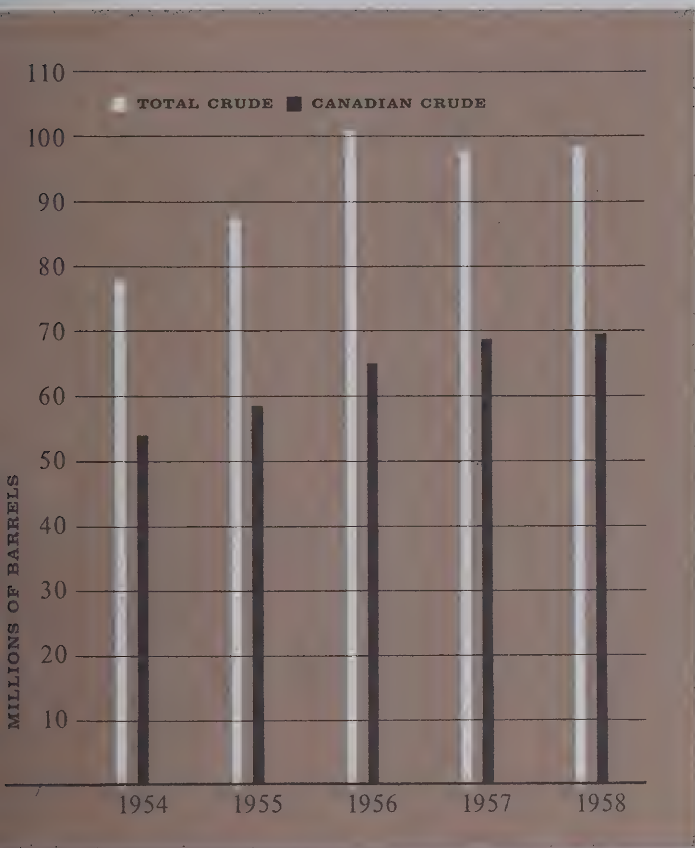
Imperial's nine refineries processed 98,241,878 barrels of crude oil during 1958. This was equivalent to 269,156 barrels daily and compared with 97,466,913 barrels, or 267,032 barrels daily in 1957.

Of the crude processed, 61 per cent was from Canadian wells, a slightly higher proportion than in 1957.

With completion of a $16,400,000 modernization expansion now under way at Calgary and a minor expansion at Sarnia, Imperial's rated refining capacity will be 332,000 barrels daily. When two Powerformers now under construction at Regina and Calgary are completed, all the refineries, except that at Norman Wells whose prime operation is to produce heating oils and diesel fuels for the Northwest Territories, will be equipped with motor gasoline octane improvement facilities. The total Powerformer program will represent an investment of approximately $30,000,000 and will enable

refinery throughput

CONSTRUCTION AT CALGARY AND SARNIA WILL RAISE REFINING CAPACITY TO 332,000 BARRELS A DAY.



THE PETROCHEMICAL PLANT AT SARNIA WENT ON STREAM IN SEPTEMBER. THE COMPLEX PROCESSES ARE REGULATED FROM THE ULTRA MODERN CONTROL ROOM.

Imperial to meet anticipated octane requirements for several years.

During the year a naphtha specialties plant and a chemical products plant were completed at Sarnia refinery. An aviation alkylation plant estimated to cost $2,600,000, now being built at Winnipeg, is the Company's second on the Prairies. It will provide sufficient additional capacity to meet total aviation gasoline demands on the Prairies and in the Northwest Territories.

petrochemicals

The year 1958 was an eventful one for the Company in the petrochemical field. In its first full year of operation, the detergent alkylate plant found outstanding acceptance for its products in the Canadian soap and chemical industries, and by year-end imports of these products were virtually eliminated. Additional quantities of detergent alkylate were exported.

Two other major projects were successfully brought on stream during the year, both at Sarnia. The first was a $4,500,000 naphtha specialties plant, producing a full line of low-odour, closely fractionated petroleum solvents. These solvents are specially tailored for use by the paint and varnish industry, dry cleaners, manufacturers of tires, rubber footwear and other rubber goods, printing inks, agricultural herbicides, and as general purpose industrial solvents. They have been well received and will displace certain petroleum solvents which heretofore were imported.

The other major project brought on stream during the year was a $28,500,000 petrochemical plant producing a wide range of organic raw materials required by the chemical industry. Principal products are ethylene, propylene, butylenes, butadiene, aromatic distillates and tars. In some cases these products replace imports of similar materials, and in other cases they will assist the Canadian chemical industry, by further processing, in producing such finished products as plastics and resins, synthetic rubber, antifreeze, synthetic fibres, and a variety of other chemical intermediates. The assured supply of raw materials will contribute to the continuing growth of the chemical industry in Canada, as witnessed by new chemical facilities already announced by others to utilize materials from this new plant.

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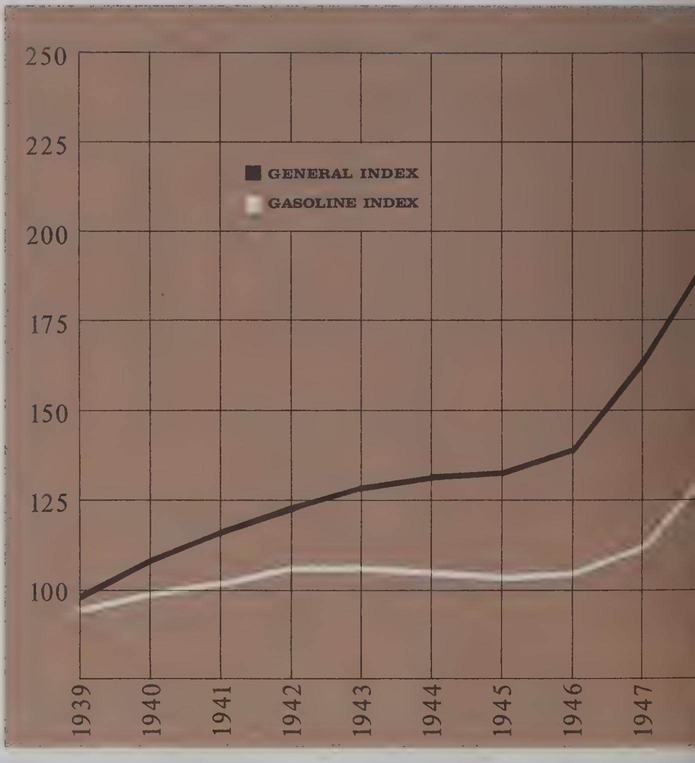
THE NAPHTHA SPECIALTIES PLANT TURNS OUT HIGH-QUALITY PETROLEUM SOLVENTS NOT PREVIOUSLY MADE IN CANADA.

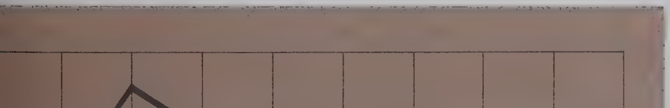


BASE: 1935-1939=100 • SOURCE: DOMINION BUREAU OF STATISTICS

gasoline wholesale price index

Excluding Federal and Provincial Gasoline Taxes.

vs. general wholesale price index



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During the year a naphtha specialties plant and a chemical products plant were completed at Sarnia refinery. An aviation alkylation plant estimated to cost $2,600,000, now being built at Winnipeg, is the Company's second on the Prairies. It will provide sufficient additional capacity to meet total aviation gasoline demands on the Prairies and in the Northwest Territories.

petrochemicals

The year 1958 was an eventful one for the Company in the petrochemical field. In its first full year of operation, the detergent alkylate plant found outstanding acceptance for its products in the Canadian soap and chemical industries, and by year-end imports of these products were virtually eliminated. Additional quantities of detergent alkylate were exported.

Two other major projects were successfully brought on stream during the year, both at Sarnia. The first was a $4,500,000 naphtha specialties plant, producing a full line of low-odour, closely fractionated petroleum solvents. These solvents are specially tailored for use by the paint and varnish industry, dry cleaners, manufacturers of tires, rubber footwear and other rubber goods, printing inks, agricultural herbicides, and as general purpose industrial solvents. They have been well received and will displace certain petroleum solvents which heretofore were imported.

The other major project brought on stream during the year was a $28,500,000 petrochemical plant producing a wide range of organic raw materials required by the chemical industry. Principal products are ethylene, propylene, butylenes, butadiene, aromatic distillates and tars. In some cases these products replace imports of similar materials, and in other cases they will assist the Canadian chemical industry, by further processing, in producing such finished products as plastics and resins, synthetic rubber, antifreeze, synthetic fibres, and a variety of other chemical intermediates. The assured supply of raw materials will contribute to the continuing growth of the chemical industry in Canada, as witnessed by new chemical facilities already announced by others to utilize materials from this new plant.

Other projects were continuously under study with a view to recovering and purifying petrochemicals from existing plant streams and to extending the chemical use of present products.

marketing

During the earlier part of the year sales reflected depressed business conditions, but in the last six months they showed considerable improvement. Because of a relatively small growth in market demand and increases in refinery capacity in some areas, there were pressures on product prices which resulted in lower sales realizations. Competition in the retail field was increasingly keen as was evidenced by price wars of varying intensity and duration. Retail sales of motor gasolines reached an all-time high, reflecting public acceptance of the quality and services supplied.

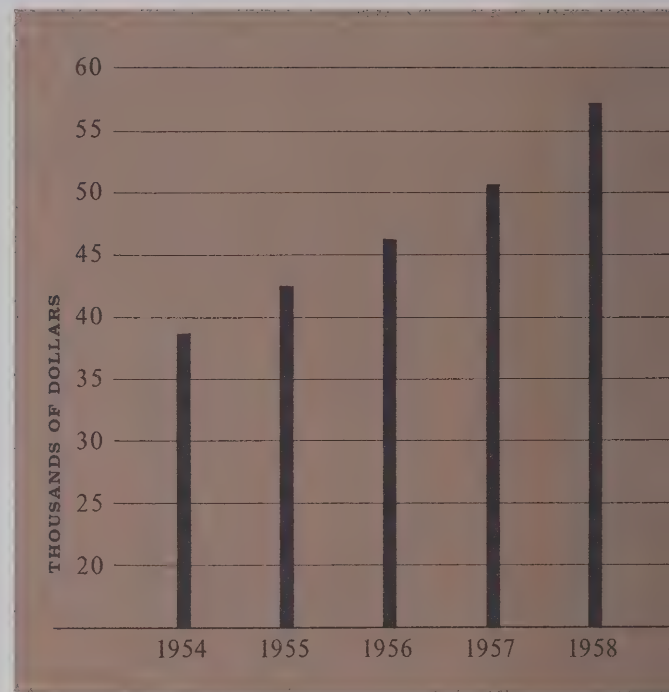
Imperial continued to expand and improve its marketing facilities and reduce costs of distribution, and although less than in 1957, capital investment for marketing plant and equipment was the second largest in the Company's history.

A marine plant terminal was established at Cutler, Ontario, on the north shore of Lake Huron to serve the uranium developments in the Elliot Lake area. At Fort William, Ontario, a start was made on extensive renovations and expansion of marine terminal facilities in keeping with the growing market potential of the lakehead area. To meet a continuing growth in aviation demands, a new hydrant refuelling system was installed at Gander Airport. New service station construction in line with the growth of new market areas was continued, and more service stations were rebuilt or modernized than in the previous year. Several new design trends were introduced into service station construction and facilities.

research

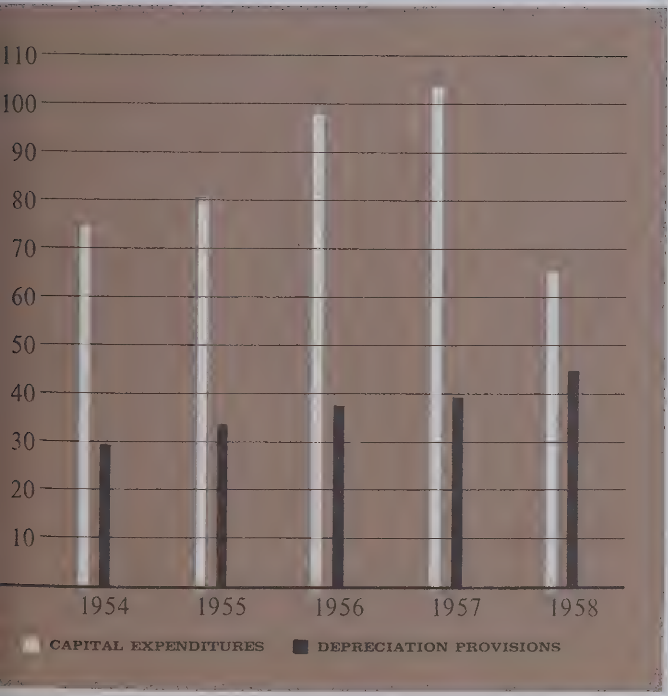
The Company's research staff continued its broad program of investigation into the development of new processes and products and improvement of existing ones.

The research department assisted in bringing the new petrochemical and naphtha specialties plants on stream and



capital expenditures and provisions for depreciation and amortization

investment in plant and equipment per employee



carried out studies to determine the most efficient operating conditions for these units. The naphtha specialties plant is the result of several years' research by the Company and some of the process represents a new advance in refining methods. The plant produces both conventional and deodorized solvents of exceptionally high quality.

A new petroleum-based product for the control of vegetation was developed and is now being tested. Indications are that one application will eliminate unwanted vegetation for a period of three years and at the end of this time a light application will give two to three further years of control.

The pilot Powerforming unit, installed in 1957, was employed extensively during 1958 as part of the Company's gasoline quality research program.

During the year an improved method of treating lubricating oils, which has been developed by the research department, replaced a less efficient process formerly in use. The research department also evolved methods of analysing jet fuels for minute particles of foreign matter which can cause wear and other engine problems. The new technique is being incorporated in government and industry specifications.

In preparation for the installation of a large, high-speed electronic computer at the Company's executive offices, work was under way throughout the year. A program which involves several study courses is being carried out to prepare personnel for staffing the data processing and computing centre. It is expected that the computing centre will go into operation in the latter part of 1959.

employee relations

Changing business conditions called for increased emphasis on the most effective use of manpower, and during the year there was some reduction in the Company's work force. Particular attention was given to the training needs of individuals for development of technical and operating skills. An Educational Refund Plan was introduced in 1957, and during the past year more than 300 employees have taken advantage of this plan by engaging in courses to promote their own development. In addition, particular attention was given to development programs for supervisors and instructors.

In view of the economic situation and the high rate of unemployment, industrial wage and salary levels in Canada remained relatively unchanged through the greater part of the year. However, an upward trend developed in the last quarter and, early in 1959, the Company made wage and salary adjustments to maintain its favourable relations to compensation levels of other industry.

Interest in the Coin Your Ideas Plan again increased. A larger number of employees submitted suggestions and there was a definite trend toward improved quality of suggestions. As a result cash awards were higher than in previous years and the largest single award was $1,500.

An intensified program of accident prevention resulted in a much improved safety record, with reductions in number of personal injuries, motor vehicle accidents, and over-all severity. The program emphasized individual responsibility for accident prevention.

Four major changes in the Company's benefit program were introduced. Effective July 1, 1958, an additional Group Life Insurance Plan was arranged. This made low cost insurance available to employees at no additional cost to the Company. Because of changes in the estate tax legislation, the Company plan of Survivor Benefits was insured under a group contract, effective January 1, 1959, to place it on the same basis as other life insurance. Steps were taken to integrate the Company's hospital-medical plans with the Provincial Government medical plans which were introduced during the year. Improvements in the Company's pension program were reflected in the annuities of employees who retired during the year.

executive changes

In August, Mr. W. D. C. Mackenzie for personal reasons resigned as a director and returned to his former office in Calgary as manager of Imperial's western producing operations. Mr. Vernon Taylor, western regional manager of the producing department, was appointed a director in his stead.

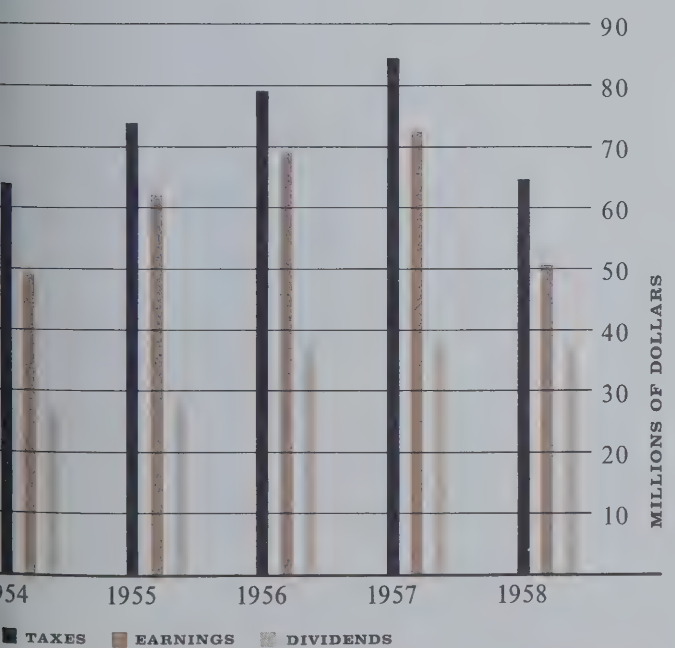
At year-end, Mr. J. K. Jamieson, vice-president and director, resigned to accept the presidency of International Petroleum Company, Limited. Mr. A. C. Harrop, manager of the employee relations department since 1951, was appointed a director effective January 1, 1959.

PRODUCT SALES AVERAGED 276,000 BARRELS A DAY. BADLY NEEDED SUPPLIES FOR A SHIP, ICEBOUND NEAR MONTREAL, HAD TO GO BY AIR.

NEW STATION DESIGNS WERE DEVELOPED FOR CONSTRUCTION PROGRAMS IN GROWTH AREAS.

earnings, dividends and taxes

Taxes include Income, Property and Sales Taxes but do not include Provincial Road Taxes



financial review

THE CONSOLIDATED FINANCIAL STATEMENTS appearing on pages 22 to 24 reflect the year's operations and results in terms of dollars. All of the Company's subsidiaries are wholly owned and thus these statements show results on a total or consolidated basis.

EARNINGS for 1958 amounted to $50,620,414 equal to $1.61 per share of capital stock outstanding at the year end. This compares with 1957 earnings of $72,080,930 equal to $2.29 per share of capital stock then outstanding. While sales of products continued at the record rate of 1957 and 1956, earnings decreased from the level of those years, largely as a result of lower crude oil production and generally lower average realizations from product sales.

DIVIDENDS to shareholders were maintained at the rate of 30 cents quarterly or $1.20 per share, the same as paid in 1957 and 1956.

FOREIGN CURRENCY TRANSACTIONS, chiefly in United States dollars, have been converted to their Canadian dollar equivalents at the rates of exchange prevailing on the transaction dates.

SALES OF PRODUCTS and crude oil processed at refineries were at approximately the same volume as in 1957, however net crude oil production was lower by 20.9 per cent.

INCOME AND EXPENSES are summarized in the following table:

	1958	1957	Per cent Decrease
Income from operations	$831,550,558	$872,986,952	4.7
Other income	7,224,122	11,582,524	37.6
	838,774,680	884,569,476	5.2
Expenses, including depreciation	723,856,841	728,316,153	.6
Taxes	64,297,425	84,172,393	23.6
Earnings after income taxes	$ 50,620,414	$ 72,080,930	29.8

TAXES, including Federal sales taxes, municipal taxes and income taxes charged against 1958 income totalled $64,297,425 equivalent to $2.04 per share of capital stock outstanding. In addition to those taxes provided for and charged against its income, the Company collected and remitted to Provincial and Municipal governments a total of $112,381,181 for road and other direct taxes levied by them. Gasoline road taxes ranged from 10 to 17 cents per gallon.

DEPRECIATION AND AMORTIZATION provided for and charged against the year's income totalled $44,920,226. Additional depreciation to be taken as capital cost allowance when 1958 income tax returns are filed is not included in this amount. Federal tax regulations require that, in calculating taxable income, the costs of drilling successful oil and gas wells be included in expense in the year incurred, and the Company follows that practice in determining its income tax liability; however, such costs are capitalized in the Company's accounts and amortized against income as and when production is taken from the wells.

NET WORKING FUNDS declined by $2,686,488 to $229,199,027. A comparison with the previous year, including the ratio of current funds to current debts, is shown below:

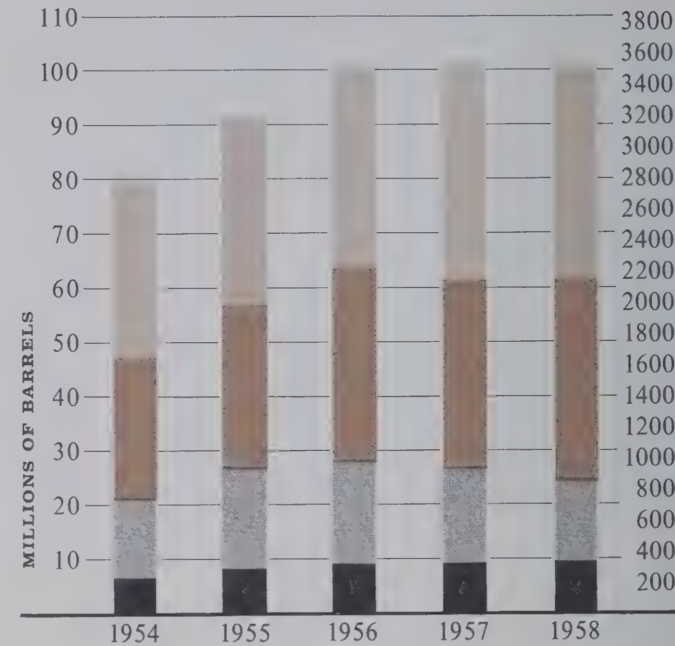
	1958	1957
Current funds and inventories	$318,416,267	$322,675,278
Current debts	89,217,240	90,789,763
Net working funds	$229,199,027	$231,885,515
Ratio, current funds to debts	3.6	3.6

INVENTORY VALUES used for balance sheet purposes are costs calculated on the first-in first-out method of moving production into sales. Estimated unrealized profits between the Company and its subsidiaries are eliminated for the purpose of determining asset values of inventories on hand. The inventory values at December 31, 1958 are materially lower than the market values on that date.

CAPITAL ADDITIONS for properties, plants and equipment are indicated in the following table:

	1958	1957
Crude oil producing (excluding exploration)	$ 9,535,399	$ 22,579,545
Refining	33,457,310	46,156,192
Marketing	21,503,807	28,578,017
Transportation	142,193	3,363,477
Other	975,378	2,386,254
	$65,614,087	$103,063,485

INVESTMENT IN OTHER COMPANIES WITH QUOTED MARKET VALUE shown at $16,012,150 is cost to the Company at time of acquirement. The quoted market value at the year end is also shown at $91,754,790.



disposition of each dollar of income

sales of petroleum products and processed crude

- *Gasolines*
- *Distillate Fuels*
- *Heavy Fuels*
- *Other Products*

These represent important but minority interests in pipe line companies.

LONG-TERM DEBTS at $88,000,000 are down $2,775,509 reflecting the year's current maturities, including retirement of the final instalments of the 2½ per cent Serial Debentures 1949 Issue and the Imperial Oil Shipping Company, Limited 3 per cent Serial notes. Debt is now equal to 14.4 per cent of shareholders' equity.

ACCUMULATED INCOME TAX REDUCTIONS APPLICABLE TO FUTURE YEARS of $43,875,218 reflects an increase of $7,056,533 from the previous year as explained in the Notes to the Financial Statements on page 26. These funds add to the capital funds of the Company until required to be paid as income tax.

SHAREHOLDERS' INVESTMENT now totals $612,779,942 up $13,177,844, which is the balance of the current year's earnings after payment of dividends. The total now equals $19.48 per share of stock outstanding, as compared to $19.07 at the end of 1957 and $17.97 at the end of 1956.

source and use of funds

SOURCE OF FUNDS:	1958	1957
Sales of crude oil, products and services	$831,550,558	$872,986,952
Income from investments and other sources	7,224,122	11,582,524
Capital stock issued	293,400	445,004
	$839,068,080	$885,014,480
USE OF FUNDS:		
Purchased crude oil, goods, services and other	$675,266,963	$685,858,342
Expenditures for new plant and equipment	65,614,087	103,063,485
Paid on account of income taxes	24,236,568	42,554,872
Paid for all other taxes	33,004,324	31,805,958
Interest and discount on and repayment of long-term debt	5,896,656	6,609,235
Dividends to shareholders	37,735,970	37,727,662
	841,754,568	907,619,554
Reduction to current working funds	2,686,488	22,605,074
	$839,068,080	$885,014,480

IMPERIAL OIL LIMITED A

CONSOLIDATE

ASSETS	AS AT DECEMBER 31 1958	1957
Current Funds and Inventories:		
Cash	$ 12,512,936	$ 14,278,549
Short-term commercial notes	24,385,310	22,634,908
Government securities, at the lower of cost or market	5,775,413	14,399,080
Trade accounts receivable, less provision for doubtful accounts	108,219,260	96,576,099
Other accounts receivable	4,138,973	4,268,012
Prepaid taxes, insurance and rentals	3,069,418	2,821,040
Inventories, on basis of cost which was less than market		
Crude oil and refined products	133,308,249	138,132,368
Other merchandise	7,235,289	7,833,640
Materials and supplies	19,771,419	21,731,582
	318,416,267	322,675,278
Deferred Funds:		
Mortgages and other deferred accounts receivable, less provision for doubtful accounts	16,735,239	15,578,439
Investment in Other Companies:		
Bonds and shares — with quoted market value 1958 — $91,754,790 1957 — $69,208,160	16,012,150	16,012,150
— without quoted market value, less reserve	2,869,682	2,439,935
Funds Deposited with Governments and Others:		
Government securities, at the lower of cost or market	1,525,312	1,025,831
Cash	218,800	343,259
Investment in Plant and Equipment:		
Land, leases, wells, buildings, plant, transportation and other equipment, at cost	798,409,320	762,311,619
Less — accumulated depreciation and amortization	293,853,525	273,320,724
	504,555,795	488,990,895
Deferred Charges:		
Unamortized debt discount and expense	845,517	899,714
Other deferred charges and credits (net)	453,216	939,894
	$861,631,978	$848,905,395

Approved on behalf of the Board:

J. R. White

M. D. Mraik

ALANCE SHEET

LIABILITIES

	AS AT DECEMBER 31 1958	1957
Current Debts:		
Accounts payable	$ 66,447,320	$ 58,390,198
Long-term debts due within one year	2,500,000	3,420,562
Income and other taxes payable	13,983,234	22,544,451
Other accrued liabilities	6,286,686	6,434,552
	89,217,240	90,789,763
Long-Term Debts (exclusive of amounts due within one year):		
Imperial Oil Limited —		
2½% Serial Debentures, 1949 Issue	—	1,500,000
3% Sinking Fund Debentures, 1949 Issue, maturing December 15, 1969	40,000,000	40,000,000
Sinking Fund Requirements:		
$2,000,000 — in each of the years 1960 to 1964 inclusive		
$2,500,000 — in each of the years 1965 to 1968 inclusive		
3⅝% Serial Debentures, 1955 Issue, maturing $1,000,000 February 1 in each of the years 1960 and 1961, and $1,500,000 February 1 in each of the years 1962 to 1965 inclusive	8,000,000	9,000,000
3⅝% Sinking Fund Debentures, 1955 Issue, maturing February 1, 1975	40,000,000	40,000,000
Sinking Fund Requirements:		
$2,000,000 — in each of the years 1966 to 1970 inclusive		
$2,500,000 — in each of the years 1971 to 1974 inclusive		
Imperial Oil Shipping Company Limited —		
3% Serial Notes	—	275,509
	88,000,000	90,775,509
Other Deferred Debts:		
For employees' annuities	14,830,644	18,001,251
Potential Debt or Loss Provisions:		
Accumulated income tax reductions applicable to future years	43,875,218	36,818,685
Fire, marine and other insurance	9,962,436	9,962,436
Contingencies	2,966,498	2,955,653
	248,852,036	249,303,297

SHAREHOLDERS' INVESTMENT

	1958	1957
Capital Stock:		
Authorized — 40,000,000 shares of no par value		
Issued 1958 — 31,451,252 shares 1957 — 31,442,652 shares	230,332,873	230,039,473
Capital Surplus Retained and Used in the Business	67,222,821	67,222,821
Earnings Retained and Used in the Business: - as per page 24	315,224,248	302,339,804
	612,779,942	599,602,098
TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT	$861,631,978	$848,905,395

The Notes to the Financial Statements on pages 26 and 27 are an integral part of this statement.

IMPERIAL OIL LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

	FOR THE YEARS ENDED DECEMBER 31 1958	1957
Income:		
From operations	$831,550,558	$872,986,952
From investment and other sources	7,224,122	11,582,524
	838,774,680	884,569,476
Expenses:		
Cost of crude oil, petroleum products and other merchandise purchased, including freight	480,852,927	479,596,097
Exploration, operating and administrative expenses	194,962,541	205,963,185
Taxes, other than income taxes	33,004,324	31,805,958
Depreciation and amortization	44,920,226	39,542,515
Interest and discount on long-term debts	3,121,147	3,214,356
	756,861,165	760,122,111
EARNINGS before income taxes	81,913,515	124,447,365
Provision for estimated income taxes thereon	31,293,101	52,366,435
EARNINGS after income taxes	$ 50,620,414	$ 72,080,930
Per share	$1.61	$2.29

(Some 1957 expenses have been reclassified to conform with 1958 presentation.)

CONSOLIDATED STATEMENT OF EARNINGS RETAINED AND USED IN THE BUSINESS

Balance at January 1	$302,339,804	$267,986,536
Add: Earnings after income taxes: 1958, $1.61 per share; 1957, $2.29 per share	50,620,414	72,080,930
	352,960,218	340,067,466
Deduct: Dividends paid: $1.20 per share	37,735,970	37,727,662
Balance at December 31	$315,224,248	$302,339,804

The Notes to the Financial Statements on pages 26 and 27 are an integral part of these statements.

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders of

IMPERIAL OIL LIMITED:

We have examined the Consolidated Balance Sheet of Imperial Oil Limited and its subsidiary companies as at December 31, 1958 and the Consolidated Statements of Earnings and Earnings Retained and Used in the Business for the year ended on that date, and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying Consolidated Balance Sheet and related Consolidated Statements of Earnings and Earnings Retained and Used in the Business are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at December 31, 1958 and the results of their operations for the year ended on that date, in conformity with generally accepted accounting principles applied on a basis consistent in all material respects with that of the preceding year.

Price Waterhouse & Co.

Chartered Accountants

TORONTO, March 12, 1959.

CONTINGENCIES AND COMMITMENTS

The Company has entered into throughput and other agreements with Interprovincial Pipe Line Company, and, along with certain other oil companies, has entered into somewhat similar agreements with Trans Mountain Oil Pipe Line Company and the Portland/Montreal pipe line companies. Under these agreements the Company has various obligations with respect to minimum shipments of crude oil and, alone or in conjunction with other oil companies, is obligated to provide necessary funds if the pipe line companies are unable to meet principal and interest payments on certain outstanding funded indebtedness. The portion of such outstanding funded indebtedness for which the Company is severally obligated under these agreements aggregated Canadian $46,927,715 and U.S. $52,665,703 at December 31, 1958. The pipe line companies are meeting their obligations as they fall due and present indications are that they will continue to do so.

Outstanding guarantees of principal and interest on borrowings of others amounted to $4,620,000 at December 31, 1958, chiefly for service stations and employee housing.

Tanker charter hire and other rentals payable by the companies under long-term agreements (more than three years) approximate $4,000,000 annually.

Commitments of approximately $10,000,000 at December 31, 1958 are outstanding against programmed capital expenditures for 1959 and subsequent years.

While the companies are involved in litigation incident to the nature of their business, it is impossible to ascertain what, if any, payments will have to be made in respect of such litigation. However, any amounts which the companies may be called upon to pay and any assets, the title to which may be in question, as a result of current litigation, will not be materially important in relation to the total assets of the companies.

DEPRECIATION AND AMORTIZATION
CAPITAL COST ALLOWANCE
PROVISION FOR INCOME TAXES

The companies' policy with respect to depreciation and amortization of investment in plant and equipment is, in general, to make charges against income over the estimated service life of such assets by the application of either the unit-of-production or the straight-line method.

Provision for estimated income taxes charged in the Consolidated Statement of Earnings does not take into account additional depreciation deductible for income tax purposes under capital cost allowance regulations. The companies are claiming the maximum deductions allowable and as a result income taxes payable in respect of the year 1958 are estimated at $24,236,568 whereas $31,293,101 was charged to income. The difference of $7,056,533 in taxes is applicable to future periods when capital cost allowances deductible for tax purposes will be less than the depreciation recorded in the accounts and is accordingly included in the Consolidated Balance Sheet, together with similar amounts in respect of prior years, under the heading "Accumulated income tax reductions applicable to future years".

In a judgment dated December 24, 1958 the Exchequer Court of Canada ruled substantially in favour of the Company in its appeal against the method used by the Minister of National Revenue in determining the allowance for depletion granted by him in assessing the Company's income for 1951. The Minister has appealed the judgment to the Supreme Court of Canada and accordingly the Company has not recognized any possible income tax recovery in its accounts. Similar appeals are still pending in respect of 1952 and subsequent years.

In 1954 the Company acquired the Cynthia petroleum exploration reservation in the Pembina area from the Government of Alberta and the cost has been amortized over a five-year period ending in 1958. The amortization provisions are not deductible for income tax purposes but in 1958 the Income Tax Act was amended so that under certain circumstances the cost of such exploration rights can be claimed as deductions from income when the rights are surrendered. During the year the Company surrendered its rights to explore in the Cynthia reservation and thus it was able to claim for tax purposes the total cost of the reservation.

The Company believes that adequate provisions have been made for all income taxes payable.

EMPLOYEES' ANNUITIES

The companies have two principal plans operating to provide life annuities for employees on retirement. One plan is insured with a Canadian life insurance company and the other is a trust administered by a Board of Trustees for the "Imperial Oil Annuity Plan (1958)". The trusteed plan was revised in January 1958 to provide a supplement, where required, to bring the life annuities to a closer relationship to employees' earnings at time of retirement.

An actuarial study as of January 1, 1958 revealed that the net cost of past service benefits arising from the supplement and other factors would amount to $7,493,202. This cost, along with interest increments, is being provided by charges to income over a ten-year period and 1958 earnings have been charged with $892,666 for this purpose. Formerly the Company provided for additional past service obligations arising from periodic actuarial valuations by charges to Earnings Retained and Used in the Business.

CAPITAL STOCK

Capital stock issued in 1958 totalled 8,600 shares for $293,400 all to employees under the Company's Incentive Stock Option Plan. Since the inception of the Plan 99,754 shares have been issued thereunder and options granted for 196,566 shares, at market prices on the dates of option, are outstanding at December 31, 1958.

SALARIES OF EXECUTIVE OFFICERS AND COUNSEL FEES

The total amount deducted in the Consolidated Statement of Earnings in respect of salaries and other remuneration paid to counsel, solicitors and executive officers, including all salaried directors, was $838,035 for 1958.

IMPERIAL OIL

Operating: (Barrels per day)
Gross crude oil production
Net crude oil production
Net production excludes royalties and oil payments due others on Company's share of production.
Crude oil processed at refineries
Canadian crude processed, as a percentage of total
Crude oil and product importations
Sales of products and processed crude
Number of employees at year-end
Financial:
Gross income
Expenses
Income taxes on earnings
Earnings after income taxes
Per share
Percentage of earnings to gross income
Dividends paid
Per share
Current funds and inventories
Current debts
Net current working funds and inventories
Ratio of current funds and inventories to current debts
Property, plant and equipment less accumulated depreciatior and amortization
Capitalized expenditures for property, plant and equipment
Long-term debt
Number of shares issued and outstanding
Number of shareholders
Shareholders' investment (book value)
Per share

LIMITED AND SUBSIDIARY COMPANIES

TEN-YEAR SUMMARY

1958	1957	1956	1955	1954	1953	1952	1951	1950	1949
86,000	110,000	119,000	108,000	97,000	90,000	76,000	62,000	35,000	25,000
75,000	95,000	103,000	93,000	84,000	78,000	65,000	55,000	32,000	22,000
269,000	267,000	275,000	239,000	214,000	204,000	191,000	185,000	170,000	149,000
61	60	64	67	69	57	50	44	28	23
121,000	126,000	121,000	108,000	88,000	121,000	127,000	129,000	147,000	125,000
276,000	276,000	275,000	250,000	218,000	212,000	207,000	197,000	174,000	154,000
13,599	14,657	14,242	13,696	13,370	13,564	13,543	13,276	12,689	12,661
$838,775,000	884,569,000	837,373,000	700,275,000	614,550,000	605,504,000	551,535,000	504,787,000	432,486,000	386,004,000
$756,861,000	760,122,000	718,494,000	593,810,000	528,067,000	523,713,000	479,816,000	440,260,000	386,714,000	353,196,000
$ 31,293,000	52,366,000	49,781,000	44,321,000	36,900,000	33,807,000	30,523,000	28,576,000	15,311,000	7,693,000
$ 50,620,000	72,081,000	69,099,000	62,145,000	49,583,000	47,985,000	41,196,000	35,951,000	30,461,000	25,115,000
$ 1.61	2.29	2.20	2.08	1.66	1.60	1.38	1.20	1.12	.92
6.03	8.15	8.25	8.87	8.07	7.92	7.47	7.12	7.04	6.51
$ 37,736,000	37,728,000	35,890,000	28,366,000	26,863,000	23,878,000	22,385,000	17,637,000	14,924,000	13,567,000
$ 1.20	1.20	1.20	.95	.90	.80	.75	.65	.55	.50
$318,416,000	322,675,000	365,674,000	299,309,000	225,460,000	234,119,000	252,068,000	272,875,000	207,296,000	184,350,000
$ 89,217,000	90,790,000	111,183,000	91,697,000	67,682,000	67,951,000	65,957,000	55,266,000	43,439,000	33,034,000
$229,199,000	231,885,000	254,491,000	207,612,000	157,778,000	166,168,000	186,111,000	217,609,000	163,857,000	151,316,000
3.6	3.6	3.3	3.3	3.3	3.4	3.8	4.9	4.8	5.6
$504,556,000	488,991,000	429,525,000	372,520,000	331,924,000	291,905,000	258,440,000	209,593,000	170,771,000	142,778,000
$ 65,614,000	103,063,000	97,951,000	80,074,000	74,236,000	67,852,000	71,138,000	57,209,000	45,476,000	43,757,000
$ 88,000,000	90,776,000	94,170,000	96,628,000	48,986,000	50,919,000	53,423,000	55,809,000	58,263,000	59,657,000
31,451,000	31,443,000	31,430,000	29,866,000	29,851,000	29,847,000	29,847,000	29,847,000	27,134,000	27,134,000
44,668	44,544	43,823	43,614	44,734	46,796	44,958	36,830	26,210	26,656
$612,780,000	599,602,000	564,804,000	463,865,000	429,127,000	395,779,000	382,185,000	365,064,000	256,704,000	240,449,000
$ 19.48	19.07	17.97	15.53	14.37	13.26	12.80	12.23	9.46	8.86

SAMPSON-MATTHEWS LIMITED, TORONTO

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